A BILL PUBLICATION FAST FOOD*

Restaurant Business

NOVEMBER 1, 1983

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November 1, 1983 VOL. 82 NO. 14

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Cover by Mark Fresh

West Germany

Market offers potential for U.S. investors

Chains probing this market of $1.2 billion should grow by 10 to 15 percent a year.

West Germany offers some interesting market opportunities for the U.S. chain looking at expansion. With the right concept adapted to the particular market, West Germany—like other European countries—could be a very dynamic new market for U.S. companies.

In 1982, the Top 20 chains in the West German foodservice industry achieved over $1.2 billion in net sales, which accounts for about 10 percent of the total foodservice volume excluding hotel restaurants and in-house catering.

In West Germany, the food and beverage industry numbers about 200,000 units—restaurants, bars, pubs, coffee houses, etc.—for a population of approximately 55 million. That works out to 275 inhabitants per restaurant, compared with 809 persons for every foodservice establishment in the U.S.

Most of West Germany's restaurants are "Bier-Kneipen," mainly serving beer but offering a few local dishes. These restaurants have low profiles within the industry and their expectations for a long and profitable future are comparatively limited. It is not a surprise that the West German food and beverage industry ranks first in bankruptcies filed and that every fourth restaurant changes hands at least once a year. But, as in other trades, insiders expect essential changes in the present structure, especially by aggressive and expanding chains. In most of the cases these chains have been more successful in handling marketing and staff than the smaller companies with their limited financial and marketing potentials.

The Top 20 numbers 1,740 units, plus 640 units on West German railways; the group achieved average unit sales of more than $500,000.

The remaining 197,000 West German foodservice outlets with sales of $11.6 billion average annual sales of $60,000; in general a chain-operated unit made about five times as much in net sales as its independent counterpart!

Unfortunately, West Germany has no official restaurant classification system, and it is difficult to compare the different types of establishments with the American market. We have tried to group the Top 20 into five categories: ● The typical snack and family restaurants with mainly limited menus and no table service. Located in middle class areas, these restaurants have total annual sales of $457 million; ● department store restaurants, with sales of $370 million; ● fast food restaurants, with sales of $318 million; ● steakhouses, with sales of $77.3 million; and ● so-called "dining restaurants," with $38.1 million in sales.

Observers believe that the chains will increase their business in West Germany by about 10 to 15 percent per year, and the independent restaurants will continue to lose about the same portion as the chains increase. This translates to a lot of opportunity for American chains in West Germany.

Maredo, a young and dynamic steakhouse chain which ranks 16th in the Top 20, is number one in sales per unit with an average of $2.5 million per restaurant.

Since the collapse of Wienerwald in 1982 (see page 166), McDonald's has risen to the zenith of West Germany's Top 20 with sales of $176 million from a total of 169 units (including 82 franchise units). McDonald's intends to open between 15 and 20 stores per year in West Germany.

Second-ranked is Wienerwald with annual sales of $151 million from 359 units (199 franchises). It is likely, however, that Wienerwald will not hold this position since the reorganization of the whole group will result in a considerable reduction in the total number of units.

Third is Lufthansa-Service with net sales of $127 million from operations in several different markets.

About half of the Top 20 are owned by department store chains or food manufacturers, or are located in the tourist business as a secondary profit center (for reasons of either diversification or client service). About 10 of the Top 20 follow a single concept format—like McDonald's or Weinkruger—the rest offer two or more marketing concepts. An example of the latter format is Nordsee with its fish restaurants, snack corners, and Hamburger Farm restaurants.

The figures for the Top 20 come from the companies themselves; where this was not possible, the editors of the German trade magazine *Fast Food Praxis* made reasonable estimates.

There is a huge market for American chains in Europe, but it must be remembered that Europe is not America. When McDonald's entered the West German market in 1970 they needed many years to understand the market, and most probably they began to make money only five to six years later.

The so-called "hamburger boom" is already over. Many companies in this market segment have failed. Wendy's and especially Burger King continue to struggle hard. Not only has Burger King changed its top European managers five

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TOP 20 CHAINS IN WEST GERMANY

PARENT COMPANY, LOCATION	NAME OF CHAIN	TYPE OF RESTAURANT	1982 SALES IN MILLIONS*	NUMBER OF UNITS AS OF 12/31/82	NUMBER OF FRANCHISEES
McDonald's, Munich	McDonald's**	fast food	$175.0	169	82
Wienerwald GmbH, Munich	Wienerwald**	specialty/family	150.0	359	199
Lufthansa Service Gmbh, Frankfurt	Airline Catering***	specialty/family	127.0		
Deutsche Schlafwagen und Speisewagen GmbH, Frankfurt	restaurants/ railroad facilities	snack	69.0 40.0 (109)	640 20 (660)	
Hertie Waren- und Kaufhaus GmbH, Frankfurt	Hertie-restaurants Wertheim-restaurants Bilka-restaurants	department store	(106)E	120	
Kaufhof AG, Köln	Kaufhof-restaurants Kaufhalle-restaurants Sam's Quick	department store	77.0 24.0 5.0 (106.0)E	84 75 13 (172)	
Karstadt AG, Essen	Karstadt-restaurants	department store	90.0	153	
Nordsee Deutsche Hochseefischerei GmbH, Bremerhaven	Nordsee-Quick Nordsee-Snack Corners Hamburger Farm	fast food	46.0 25.0 6.0 (77)	125 175 7 (307)	1
Horten AG, Düsseldorf	Horten-restaurants	department store	44.0	58	
Mövenpick Restaurant-Betriebs- und Handelsgesellschaft mbH, Stuttgart	Mövenpick Silberkugel	full-service fast food	38.0 2.0 (40)	20 3 (23)	
Kochlöffel GmbH & Co. KG, Lingen/Ems	Kochlöffel	snack	38.5	110	
Kaub & Kuffler-Gruppe, München	Doctor Flotte Wurstkuchl Tangente and others	fast food	23.0	70	
Jacques Borel Deutschland AG, Düsseldorf	Churrasco Barbecue	steakhouse	17.5 4.0 (21.5)E	20 5 (25)	
Burger King Holding GmbH, Wiesbaden	Burger King	fast food	21.0	26	10
Block House Restaurationsbetriebe, Hamburg	Block House Jim's Restaurant	steakhouse fast food	18.0 2.0 (20)	12 5 (17)	
Maredo GmbH & Co. Betriebs KG, Sindelfingen	Maredo Steak & Salad	steakhouse	17.5	8	
Schickedanz KG, Fürth	Quelle-Restaurants	department store	17.0	24	
Wendy Restaurants GmbH	Wendy	fast food	10.5	14	
Schaper, Hannover	Realkauf Extra Esbella-restaurants Continent	department store	10.5E	30	
Weinkrüger Weinhandels- und Gaststätten GmbH, Hamburg	Weinkrüger	specialty	9.5	29	
TOTAL 1982 SALES			1,213.0		

** without hotel-restaurants (total sales) **sales of franchisees incl. ***untypical restaurant situation E estimated*
Source: German trade magazine Fast Food Praxis

times and its headquarters three times; it appears that European Burger King licensees are dissatisfied with the American parent.

To operate successfully in Europe it is imperative to understand that Europe has none of the market uniformity of the U.S. There are tremendous differences from country to country in labor, real estate, and regulations, not to mention languages, consumer-eating habits and taxes. Moreover, problems vary from one country to another in finding competent management, in training, and in unionization.

Over the past two years, Europeans have experienced dramatic changes in lifestyles: today there are more singles, more working women, and smaller average households than ever before. Working hours are shorter, leisure time is longer, and eating out is on the rise.

The European chains are hard pressed to fill the niches created, and it is here that American companies could successfully enter the European market.

The American chains have advantages that are obvious: They have systems; clean concepts; training programs; test kitchens; the know-how to work with unskilled people; financial and marketing savvy; and experience with operating multiple stores. In a word, the Americans are professionals compared to the somewhat "hand-woven" European companies.

The best way to enter the European market is to look at what is happening in Europe, to speak to some of the professionals, and certainly not to buy expensive research material prepared by non-professional research companies.

The European market is an ideal joint venture market. American know-how and systems combined with European management skill seems to be the factor behind the successful venture in Europe.

Ten countries in the European market have about three times as many restaurants as the whole of the United States. The question automatically arises: Where is the future? □ **—Charles Fessel**